INFORMED BUDGETEER: Recess Edition

SPENDING RECONCILIATION: OFF TARGET -- SLIGHTLY

- Final scoring of the House and Senate passed spending reconciliation bills, show both bills falling slightly short of the Bipartisan Budget Agreement's (BBA) restraint assumptions necessary to reach balance in 2002. Both bills go to conference following the 4th of July recess.

- The BBA assumed that net entitlement spending (excluding interest savings) would be reduced $137.2 billion over the next 5 years. The BBA assumed $59.4 billion of the total entitlement savings would occur in 2002, and when combined with restraints on appropriated accounts, offset by a tax cut of $20.5 billion in 2002, a balanced budget would result that year.

Spending Reconciliation Conference: HR 2015
(Deficit Reduction in $ billions)

	BBA		House Bill		Senate Bill	
	2002	Total	2002	Total	2002	Total
Food Stamps	**0.300**	**1.500**	**0.320**	**1.530**	**0.300**	**1.490**
Hardship exemption	NA	NA	0.130	0.580	0.130	0.580
Add'l work funding	NA	NA	0.190	0.950	0.170	0.910
Housing	**-0.434**	**-1.590**	**-0.507**	**-1.771**	**-0.453**	**-1.530**
FHA foreclosure rules	-0.110	-0.666	-0.183	-0.846	-0.183	-0.846
Cost inc.- Sect. 8	-0.324	-0.924	-0.324	-0.925	-0.331	-0.977
Mark to market	NA	NA	NA	NA	-0.061	-0.240
Energy	**-0.006**	**-0.013**	**-0.076**	**-0.197**	**-0.006**	**-0.013**
Lease excess SPR	-0.006	-0.013	-0.006	-0.013	-0.006	-0.013
DOE asset sale	NA	NA	-0.070	-0.184	NA	NA
NRC fees [A]	NA	NA	(-0.35)	(-1.36)	NA	NA
Spectrum	**-14.80**	**-26.300**	**-11.00**	**-20.30**	**-7.500**	**-17.75**
Extend & Broaden	-1.800	-6.000	-1.800	-5.800	-1.800	-5.900
Directed reallocation	-4.300	-9.700	-4.700	-9.500	-3.000	-7.500
Auction channels	-1.300	-2.500	-1.300	-1.800	--	-1.700
Analog auction	-5.400	-5.400	-3.200	-3.200	-2.700	-2.700
888 auction	--	-0.700	NA	NA	NA	NA
Spectrum fee	-2.000	-2.000	NA	NA	NA	NA
Universal Fund	NA	NA	-2.000	--	NA	NA
Medicaid/child health	**-2.265**	**2.375**	**-2.300**	**2.300**	**-0.700**	**5.398**
Medicaid (net)	-6.165	-13.625	-5.100	-11.70	-4.200	-10.30
Children's Health	3.900	16.00	2.800	14.00	3.500	15.70
Medicare	**-40.00**	**-115.00**	**-41.20**	**-114.9**	**-42.70**	**-118.0**
Welfare/Other	**1.354**	**11.979**	**1.234**	**11.10**	**1.980**	**13.87**
Welfare - TANF	--	3.000	--	2.755	0.200	2.900
SSI/ immigrants	1.600	9.700	1.450	8.975	2.015	11.67
Raise UI ceiling	-0.216	-0.624	-0.216	-0.624	-0.216	-0.624
EITC	-0.030	-0.097	NA	NA	-0.019	-0.078
EITC[A]	-0.003	-0.011	NA	NA	-0.003	-0.011
Student loans/Other	**-1.057**	**-1.792**	**-1.059**	**-1.793**	**-1.080**	**-1.792**
Student loans	-1.050	-1.763	-1.052	-1.764	-1.080	-1.792
Smith-Hughes	-0.007	-0.029	-0.007	-0.029	NA	NA
Health insurance	NA	NA	--	--	NA	NA
Civil Service	**-1.229**	**-4.927**	**-1.237**	**-4.955**	**-1.269**	**-4.987**
USPS workers comp	-0.031	-0.165	-0.031	-0.165	-0.031	-0.165
Agency contributions	-0.577	-2.933	-0.577	-2.933	-0.609	-2.965
Employee contrib.	-0.621	-1.829	-0.621	-1.829	-0.621	-1.829
FEHB	NA	NA	-0.008	-0.028	-0.008	-0.028
USPS worker comp.[A]	--	0.044	--	0.044	--	0.044
User fee-vessel tonage	**-0.049**	**-0.196**	**-0.049**	**-0.196**	**-0.049**	**-0.196**
Asset sales	**-0.540**	**-0.540**	**-0.540**	**-0.540**	**-0.540**	**-0.540**
Governor's Island	NA	NA	-0.500	-0.500	-0.500	-0.500
Union station air	NA	NA	-0.040	-0.040	-0.040	-0.040
Veteran's Benefits	**-0.681**	**-2.733**	**-0.681**	**-2.733**	**-0.681**	**-2.733**
OBRA housing fees	-0.219	-0.909	-0.219	-0.909	-0.219	-0.909
OBRA pension limit	-0.190	-0.677	-0.190	-0.677	-0.190	-0.677
Round down COLA	-0.128	-0.391	-0.128	-0.391	-0.128	-0.391
Enhanced loan asset	-0.005	-0.025	-0.005	-0.025	-0.005	-0.025
Withhold refunds	--	-0.090	--	-0.090	--	-0.090
Mand. Admin savings	-0.139	-0.641	-0.139	-0.641	-0.139	-0.641
TOTAL	**-59.40**	**-137.23**	**-57.09**	**-132.4**	**-52.20**	**-125.5**

[A]Revenues/Savings not scored against the bill. Based on official CBO scoring of S. 947/HR2015, July 2, 1997 and HR 2015, June 27, 1997.

- Final scoring shows that both the House and Senate spending reconciliation, as amended in their respective chambers, missed these targets. The House bill achieved 5 year reconciliation savings of $132.4 billion, the Senate bill -- $125.5 billion, nearly $5.0 billion and $12.0 billion short of the target. More importantly, for the critical year of 2002 the House bill fell $2.3 billion short and the Senate bill $7.2 billion short. (See table.)

- Major areas of differences between the BBA assumptions and the two chambers' bills include: (1) spectrum savings, in 2002 the House fell $3.8 billion short and the Senate fell short $7.3 billion, (2) both bills also fell $2 to $3 billion short of the BBA's planned Medicaid savings, (3) while the House bill stayed within the BBA's goal for increased welfare spending, the Senate bill exceeded the spending target by nearly $2.0 billion, and finally,(4) while the House bill met the BBA goal of $115 billion in 5 year Medicare savings, the Senate made up for its overage in welfare spending by achieving nearly $118.0 billion in Medicare savings.

- Excluding interest savings, ten year entitlement savings in the House bill are estimated to reach $423.4 billion, and in the Senate bill $441.5 billion. While not binding, the BBA assumed entitlement savings of $560 billion over the next 10 years.

- Combined with the $8 billion in children's health spending included in the tax bill (discussed below) -- **the Senate bills result in $53.4 billion more spending over the next ten years on Medicaid and children's health than was assumed in BBA.**

REVENUE RECONCILIATION: ON & UNDER TARGETS.

- Final JCT and CBO scoring of the two revenue reconciliation bills, show that the Senate Finance Committee did not exceed the net tax cut of $85 billion assumed in the BBA over the next 5 years. While the House bill slightly exceeded the target (See table that follows.)

Revenue Reconciliation Conference- HR 2014
($ in billions)

	House Bill		Senate Bill	
	2002	Total	2002	Total
Major tax relief provisions:				
$500 Child tax credit	-17.3	-70.4	-17.7	-83.4
Education tax incentives	-7.4	-31.0	-8.2	-33.0
Capital Gains	+2.5	+2.7	-3.5	-3.3
Estate Tax Changes	-2.7	-8.1	-2.3	-5.5
IRA	-0.3	-*	-1.4	-3.4
AMT	-4.2	-14.5	-0.2	-0.2
Extend expiring provisions	-0.3	-4.1	-0.4	-5.3
Simplification & other	-1.1	-6.5	-2.0	-11.0
Total gross tax cuts:	-30.8	-131.9	-35.7	-145.1
Major tax raisers:				
Airline	+7.9	+34.2	+10.1	+34.4
FUTA	---	---	+1.7	+6.4
Cigarette	---	---	+3.0	+14.8
Other	+1.8	+12.6	+2.2	+11.6
Total tax raisers	+9.7	+46.8	+17.0	+67.1
Net Tax cuts	-21.1	-85.1	-18.6	-78.0
Outlay Costs:				
Children's Health	---	---	+2.0	+8.0
Amtrak	---	---	---	+2.3
Net Deficit Impact	+21.1	+85.1	+20.6	+88.3

Source:SBC Majority Staff based on JCT tables, June 25 & July 1 and CBO letter, June 25. Numbers may not add to total due to rounding. Negative sign for revenues represent a reduction in taxes and an increase in the deficit. Positive sign for revenues represent an increase in taxes and a reduction in the deficit. SBC adjusted to remove effects from changing baseline. *- represents less than $50 million.

- The House-passed revenue reconciliation bill exceeded the BBA 10 year assumption-- $254 billion net tax cuts. For netting to balance in 2002, the House bill cut taxes in that year by $21.1 billion, slightly more than the BBA assumption.

- The Senate-passed revenue reconciliation bill reduced taxes by $78 billion over the next 5 years and by $264 billion over the next 10 years. Over the first 5 years the Senate bill cut more taxes than the House bill -- $145.1 billion versus $131.9 billion -- but the Senate bill also raised more taxes than the House bill -- $67.1 billion versus $46.8 billion, primarily from extending and increasing the Federal Unemployment Tax Act (FUTA) surtax and increasing cigarette taxes. Result: net tax cuts in House of $85 billion and in the Senate $78 billion.

- Since the BBA assumed $85 billion in net tax cuts would not jeopardize achieving balance in 2002, the Senate bill took advantage of its $78 billion in net tax cuts to increase spending for children's health initiatives ($8 billion) and AMTRAK ($2.3 billion). Result, the Senate revenue bill's impact on federal deficit is to increase it by $88.3 billion over the next 5 years, (e.g. $78.0 billion tax cuts + $10.3 billion spending increases).

- Confusing -- but at this time the Senate's revenue reconciliation bill exceeds by $3.3 billion the BBA's assumed deficit impact over the next 5 years. Therefore, either the new spending for AMTRAK can not be triggered or the increased spending in the bill for children's health will have to be reduced, or a combination of both.

LINE ITEM VETO UPDATE: LAW REMAINS IN EFFECT

- On June 26, 1997 the Supreme Court issued its ruling in the Line Item Veto case. The Court vacated the judgment of the District Court and dismissed the plaintiff's case for lack of standing. (Raines v. Byrd, Bench Opinion 96-1671). This means that the President retains the right to cancel spending and tax items from legislation presented to him by the Congress.

- The plaintiffs, (Senators Byrd, Moynihan, Levin and Hatfield, and Representatives Skaggs and Waxman) challenged the law in District Court as soon as it went into effect back in January. The District Court granted their motion for summary judgment and held the law to be unconstitutional. Under the explicit terms of the law, the Supreme Court heard the case on direct appeal and conducted oral arguments on May 27th.

- It was noteworthy that during oral argument, the bulk of the questions from the Justices dealt with the issue of standing rather than the merits of the Line Item Veto itself. Many observers at that time predicted that the Court would confine its ruling to the standing issue alone. That is exactly what the Court did in its June 26th ruling in finding that these plaintiffs lack standing.

- Standing is determined based on the language of Article III, section 2 of the Constitution and requires that there be a case or controversy in order for anyone to invoke the jurisdiction of our courts. This requires plaintiffs to allege a personal injury that is particularized, concrete, and otherwise judicially cognizable. The Supreme Court requires strict compliance with this requirement and in this instance found the plaintiffs case lacking.

- This was the first time the Court faced the issue of legislative standing as presented here. Unlike previous cases where the Court acknowledged members' standing, in this case the Court found that these members of Congress have not been individually singled out for especially unfavorable treatment nor have they been deprived of something to which they are personally entitled.
- The members had argued that the mere existence of the Line Item Veto somehow diminished the value of their individual votes on legislation and changed the dynamic between the Congress and the White house with respect to the crafting of legislation. The Court was unwilling to accept the members assertions of any such "institutional injury". In doing so, the Court stated that it was noteworthy that these members were not supported by their respective Houses of Congress in their challenge to the law. Quite the contrary, both Houses filed amicus briefs in support of the Line Item Veto.
- Finally the Court noted that its decision here does not foreclose future actions by these members or others to challenge the Line Item Veto. Clearly they are free to attempt to convince their colleagues to repeal the law or exempt future legislation from its purview. Moreover it will be an entirely different case, if and when the President exercises the authority delegated to him under the law.

- The *Bulletin* now anxiously awaits the first use of the Line Item Veto. The law will apply to the 13 appropriation bills, the Balanced Budget Act of 1997 (spending) and may apply to the tax reconciliation bill depending upon the Joint Committee on Taxation's analysis of limited tax benefits (see following).

BUDGET QUIZ

Question: What's a "Limited Tax Benefit"?

Answer: The Line Item Veto Act gives the President the authority to cancel limited tax benefits in legislation enacted after January 1, 1997. The President's first chance to apply this new power to a tax bill could arise when the Congress sends him the revenue reconciliation bill.

- Under the Line Item Veto Act, the Joint Committee on Taxation determines what constitutes a "limited tax benefit". Generally, the Line Item Veto Act provides that a limited tax benefit must fit one of two categories:

  - a revenue losing provision which provides a deduction, credit, exclusion, or preference to 100 or fewer beneficiaries under the Internal Revenue Code (the law provides exceptions for those who receive the same treatment); or

  - any tax provision which provides transitional relief for 10 or fewer beneficiaries under the Internal Revenue Code (the law provides exceptions for technical corrections or provisions which retain current law for existing contracts).

- Based on these criteria, the Joint Committee on Taxation must provide the conferees a statement that either lists the limited tax benefits in the bill or declares that the bill contains no limited tax benefits for the purposes of the Line Item Veto Act. The conferees are then required to include this statement in the text of the tax reconciliation bill. When the President signs the bill into law, he will be bound by the Joint Committee's identification.

- Under the Line Item Veto Act, however, if the Joint Committee fails to produce such a statement or if the Congress fails to include the statement in the conference report, then it is up to the President's discretion to determine which provisions he can cancel under the Line Item Veto Act.

✯ HONG KONG BUDGET FACTOID ✯

- While budget surpluses are a faint memory in the US and most industrialized countries, Hong Kong continues to be the notable exception. In the 1996-97 budget year, Hong Kong posted a $2 billion surplus (9 times its original estimate) and expects a $4 billion surplus in the 1997-98 cycle, totaling $7.6 billion over the next 3 years. Hong Kong's 3 reserves total approximately $84 billion; these are comprised of the fiscal reserve, the Chinese administrated Land Fund, and the currency Exchange Fund. For a territory of 6 million people, outgoing British Governor Chris Patten called the reserves, "the biggest dowry since Cleopatra."

CALENDAR

July 10: Conference kick-off- Balanced Budget Act of 1997; Capitol-SC05, 2:00 pm. Chairmen and Ranking Members only.

July 18: Target Date for completion of Reconciliation Conferences.